

SECTION 2: INTRODUCTION AND BACKGROUND

This report presents the results of KPMG's review of the functions performed by the Defense Automated Printing Service (DAPS) in accordance with Section 350 of the FY99 Defense Authorization Act. This section of the report will present an overview of the legislation, an identification of past printing studies that KPMG reviewed, and an overview of the printing industry.

Congressional Legislation

Section 350 of the FY99 Defense Authorization Act directed the Secretary of Defense to provide for a review of the functions performed by DAPS, and to submit the findings of the report to the Senate Armed Services Committee and the House Committee on National Security before March 31, 1999. To maintain independence and objectivity, the Secretary of Defense was directed to select either the General Accounting Office (GAO), an experienced entity in the private sector, or another entity outside of the DoD to perform the study. The legislation further stated that:

“Regardless of the entity selected...the entity shall perform the review in consultation with persons in the private sector who have expertise and experience in performing in the private sector functions similar to the functions performed by the Defense Automated Printing Service.”

More specifically, the legislation states that the review should address the following:

- functions performed by DAPS
- functions that are “inherently” national security functions
- functions of DAPS that are appropriate for transfer to another entity, including a private sector entity
- assessment of DAPS current organizational/managerial structure and whether or not it is aligned to meet current and future customer needs
- best business practices currently in use by DAPS.
- develop options for maximizing DAPS structure and services to provide the lowest cost to its customers

In addition to addressing the issues set forth above, the legislation also stipulates that the entity performing the review will supply the Secretary of Defense with the following information:

- list of DAPS sites
- list of DAPS personnel and their location(s)
- assessment of the equipment at each DAPS site
- explanation of the networking and technology linking all of the DAPS sites
- if a DAPS function is determined to be one that is “inherently” a national security function, a detailed assessment as to why it has been identified as such
- if a DAPS function has been determined to be appropriate for transfer, an assessment of the cost savings that would result from such a transfer

DLA was delegated the responsibility for the study of DAPS and selected KPMG to perform the analytical section of the study. KPMG was selected as an independent entity, outside the DoD, and performed the study in consultation with the printing industry and other industry groups who have experience in the printing industry in accordance with Section 350 of the FY99 Defense Authorization Act.

Past Studies

There have been numerous studies conducted and reports written addressing the issue of government printing. Some of the studies pertained to the operations of a particular agency, while others addressed government printing as a whole. KPMG performed a high-level review of these past initiatives and, in some cases, consulted with the individuals who performed the studies. Exhibit 2-1 is a list of government printing studies that KPMG has reviewed during the course of this effort.

Exhibit 2-1, Past Government Printing Studies

Title	Author	Date
Preliminary Report on Consolidation of DoD Printing	Management Office of the Navy Publishing and Printing Service	June 1991
Defense Printing Service Core Capacity Study	The Defense Printing Service	May 1994
Government Printing: Legal and Regulatory Framework Is Outdated For New Technological Environment	General Accounting Office	April 1994
Cost Reduction Report on Defense Printing	Defense Business Operating Fund Corporate Board's Special Committee for Cost Reduction	August 1994
Government Printing: Comparison of DoD and GPO Prices for Printing and Duplicating Work	General Accounting Office	February 1995
Government Printing Cost Study	Office of Management and Budget	February 1998
Management Audit of the Government Printing Office	Booz-Allen & Hamilton	February 1998

Industry Overview

The printing industry is a \$140 Billion industry with over 52,000 companies and more than one million employees. During this study, KPMG spoke to a number of commercial and public entities and determined that there is no single agreed upon definition for “printing”. Other

terms that are also used to describe either this function or portions of this function include reproduction, document automation, and copying. For the purpose of this study, KPMG has defined printing as the process of applying ink to paper, toner to paper, and any other electronic output to paper. The industry is made up of many segments from general commercial printing to greeting card printing. KPMG found that DAPS-like functions in industry fall into a number of market segments. The following is a list of market segments in industry, which are performing DAPS-like functions.

- **General commercial printing** includes stationery, catalogs, directories, direct mail, circulars, microfiche, engineering drawings and color printing.
- **Quick printing** includes copying and duplicating services in storefront locations.
- **Prepress services** include graphic designers, imagesetting, desktop publishing, platemaking and film stripping.
- **Trade binding** includes saddle stitching, perfect bind, and GBC binding.
- **Other finishing services** includes dividers, tabs inserts, lamination, and various other forms of finishing.

Segment Growth in Industry

Exhibit 2-2 shows the commercial printing industry by revenue for those segments that contain DAPS-like functions. There has been strong growth in some of the commercial market segments that DAPS operates within. General commercial printing revenues increased by 9% in FY97 and the quick printing segment increased by 48% in FY97.

*Exhibit 2-2, Commercial Printing and Printing Services Market Segments
(Source: Printing Industries of America)*

	Revenue (\$M)		
	1995	1996	1997
COMMERCIAL PRINTING			
General commercial printing	40,010	42,868	46,841
Quick printing	3,519	4,464	6,612
Total	43,529	47,332	53,453
TRADE SERVICES			
Prepress services	6,319	6,906	7,675
Trade binding	1,752	1,274	1,713
Other finishing services	1,427	996	1,222
Total	9,498	9,177	10,609
Printing Market Segment	\$53,027	\$56,509	\$64,062

Continued increases in commercial printing and quick printing are projected into the foreseeable future. Several individuals familiar with the industry expect production print volumes to continue to climb. They also project growth with commercial applications that can print what customers want, where customers want to print, and when they want to print it, faster, and with considerable cost savings.

Industry Trends

To identify the current trends in the printing industry, KPMG performed Internet research, consultative interviews with industry, as well as discussions with the Gartner Group and printing industry associations.

Electronic Documents. The rapid change in the management of electronic documents is making the production print industry more and more complex. Vendors that do not make the transition from selling production to providing new electronic solutions will most likely be left behind as the industry moves away from hard copy output. The “cost per page”, which has been the centerpiece of the industry selling proposition is now changing to “value per page”. This change in the industry selling position is causing a change within management of printing companies to better align themselves with the Chief Information Officers within their own organization and at customer locations.

Distribute and Print and Print on Demand. Another change in the industry is a move from the environment of printing large volumes of books on offset presses to more economically printing one “additional” book at a time. This ability to print on demand or print anywhere with distributed-printing is in turn reducing inventory and storage facilities cost.

Multifunctional Devices. The historically stable “printing” industry is being profoundly influenced by technology. The industry is changing from the traditional offset printing and light lens analog copiers to networked devices that scan, fax, copy and print. These multi-functional devices hook together all company employees and allow them to scan a document, store it and send copies anywhere in the company. Multifunctional devices are also able to route incoming faxes as e-mails to all personnel connected to the customers network. Documents are going from paper to electronic form, and vice-versa, to be stored, manipulated and distributed. “It’s the digital document. That’s the key to the whole ballgame,” says Jay Ingalls, a research director at Gartner Group Inc. Moreover, the internet is fueling a rise in electronic page counts and a rise in the number of printed copies.

Outsourcing. Outsourcing of corporate printing is on the rise in America. The Outsourcing Institute states that printing and reprographics is one of the top areas that executives are currently outsourcing. Companies are outsourcing because it allows them to reduce, and better control operating cost, improve the company’s focus, gain access to world-class capabilities and free internal resources for other purposes. When examining the areas companies outsource the most; printing was in the top three major areas that companies are currently outsourcing according to the Outsourcing Institute.